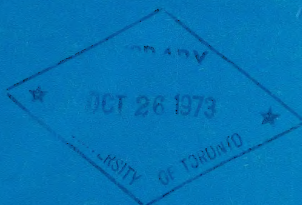


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# CANADA AND ONTARIO ECONOMIC FORECAST

SPRING 1973



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CANADA AND ONTARIO  
ECONOMIC FORECAST

SPRING 1973



Economic Analysis Branch  
Office of Economic Policy  
Ministry of Treasury, Economics and  
Intergovernmental Affairs

April 1973



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The forecasts in this report are prepared by the Economic Analysis Branch and are for the internal use of the departments and agencies of the Ontario Government. They are based on statistics available before April 5, 1973.

For further information call (416) 965-5454.





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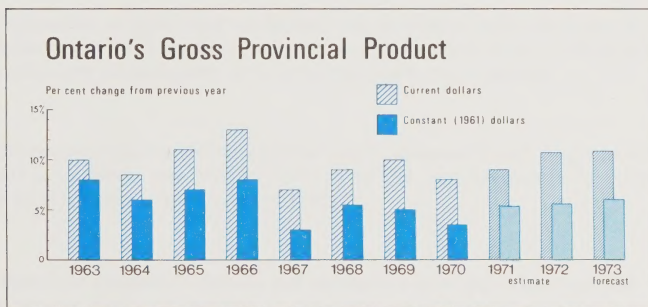




## CANADA AND ONTARIO IN 1973

### Outlook 1973

The Ontario and Canadian economies are expected to grow more rapidly this year than in 1972. Recent federal budgetary measures will have a definite stimulative effect on the economy so that real economic growth in both Ontario and Canada should be around 6.0 per cent in 1973. There still exists some uncertainty as to the proposed corporate tax measures outlined in the Federal Budget of February 19, 1973, but the forecasts that follow assume that the fast write-off provisions on some machinery and equipment and the decrease in corporate tax rates will be enacted into law by Parliament. The continuing expansion of the U.S. economy and the economies of Canada's other major trading partners should also facilitate the achievement of another year of national and provincial growth.



The economic outlook for 1973 can be summarized as follows:

- The overall real gain in both Ontario's and Canada's output of goods and services is expected to be about 6.0 per cent.
- Prices, as measured by the GNP deflator will rise by about 4.8 per cent. Thus, in current dollars, GNP should reach \$114 billion—twice the output of the year 1965.



- The unemployment situation, which improved marginally in Canada as a whole and moderately in Ontario in 1972, will continue to improve this year. A decrease in labour force growth is expected, and employment opportunities, especially in the service and manufacturing industries should continue to increase rapidly. It is anticipated that unemployment will decline to an average of 4.4 per cent in Ontario and 5.9 per cent for Canada as a whole.
- Although overall growth of the provincial and national economies will be approximately the same, a number of differences in selected sectors will occur. Exports from Ontario are expected to grow slightly faster than from the rest of Canada, reversing the trend of 1972. Rates of growth of residential construction are expected to slow down throughout Canada, but decreases will be somewhat greater in Ontario than in the rest of Canada.
- Investment in plant and equipment will provide a larger stimulus to the economy in 1973 than last year. Indications are that investment in plant and equipment will be greater in Ontario than in the rest of Canada.
- Corporation profits should continue their expansion which began in 1971, but at a slower rate than in 1972. A 12 per cent advance in corporation profits is expected this year over 1972.
- Consumer spending in Ontario and Canada will again play a leading role in the economy. Some deceleration in the rapid rise of durables spending is anticipated, but this will be offset to a large degree by increased outlays on non-durables and services. For Canada as a whole, about 11 per cent rise is expected in total consumer spending.
- Canadian exports will grow very rapidly again—about 10 per cent, but any positive effects from this will be more than offset by merchandise imports which are expected to advance by 12 per cent. The rapid growth of raw material exports will continue in 1973 as the gap between domestic U.S. energy supplies and U.S. energy demand widens.
- The devaluation of Canada's currency vis-a-vis offshore countries will effect some improvement in trade, but the total improvement resulting from the currency alignment will be small as only about 30 per cent of total Canadian trade goes outside the U.S. Our major offshore trading partners, the EEC and Japan, show no signs of removing many of their invisible trade barriers on processed and manufactured goods.



- Trade negotiations with the U.S. will focus on the Auto Pact and U.S. energy needs. Recent public statements by the U.S. government have indicated that it wishes to eliminate Canada's merchandise trade surplus with the U.S. With the help of two successive devaluations within 15 months, the U.S. hopes to reverse its balance of payments deficit by the end of 1973.
- Housing construction in Ontario will be brisk, but the rapid rates of growth of the past two years will not be duplicated. About 110,000 housing starts are expected in Ontario this year—up 7 per cent over 1972.

### **Consumer Expenditures**

It is expected that consumer spending in Ontario will continue to be active in 1973 as the willingness of consumers to buy is very strong. Consumer confidence which steadily improved throughout 1972 will continue.

In 1972, most of the increased consumer expenditures arose from large increases in durables spending. In 1973, it is expected that increases in spending on goods and services will be balanced between durables, semi-durables, non-durables and services.

Consumer spending is expected to grow by 10.8 per cent this year—about the same rate as GPP. Some of the increased spending will result from draw-downs of the very large personal savings made in 1972. These savings in Ontario and Canada averaged about 8.0 per cent of total personal disposable income, compared to 7.8 per cent in 1971 and a 5.8 per cent average for the 10 year period 1961-1971. In addition, personal incomes in the Province are expected to increase by about 12.6 per cent to a level of 38.0 billion in 1973.

Sales of automobiles which grew in volume by about 14 per cent in 1972 are expected to advance only 7 per cent in 1973 as the strong demand for automobiles in Canada will not be matched this year, despite record first quarter sales.

### **Employment Outlook in Ontario**

The rapid labour force growth which characterized the employment picture in Ontario in 1972, will slow down somewhat in 1973. This factor, combined with a continued expansion of the economy and the nearing of full capacity by many firms will mean that unemployment will decrease to an average of 4.4 per cent in 1973.

While labour force growth will probably be lower than last year, employment opportunities should increase at a faster rate, especially if recent Federal budgetary proposals are enacted into law. New investment projects which are planned in the goods producing industries should provide a sizeable portion of the anticipated growth in job opportunities.



Employment growth in 1972 was strongest in the manufacturing and service sectors. This pattern is expected to remain unchanged except for employment in construction, which after a decline in 1972 should show a sizeable advance.

Unemployment has been most acute for the young people of the Province. Apart from the search for permanent employment by young people, it is estimated that more than 320,000 secondary and post-secondary students will be looking for work during the summer months. The Ontario Government will continue its programs to provide challenging and meaningful work for many students. During the summer of 1973, about 11,000 students will be hired in regular departmental programs, and another 6,800 will be engaged under "Experience '73" programs, which include projects such as SWEEP, RSVP, and others which were so successful last year.

In summary, it is expected that employment will rise 4.3 per cent, the labour force will grow by 3.8 per cent and unemployment will decline from 4.8 last year to 4.4 per cent or less in 1973.

**LABOUR FORCE AND EMPLOYMENT FORECAST  
ONTARIO**

	<u>1971</u>	<u>1972</u>	<u>1973<sup>1</sup></u>	<u>1972/71</u>	<u>1973/72</u>
	Per Cent Change				
Labour Force (000's)	3,249	3,381	3,510	4.1	3.8
Employment (000's)	3,079	3,219	3,356	4.5	4.3
Unemployment (000's)	170	162	154	—	—
Unemployment Rate (%)	5.2	4.8	4.4	—	—

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<sup>1</sup> Forecast, Economic Analysis Branch,  
Ministry of Treasury, Economics and Intergovernmental Affairs.





## Long Term Interest Rates

The demand in 1973 for long term funds has been relatively light to date. Combined with an ample supply of institutional cash, such a light demand would normally create downward pressure on long term rates. However, the expectation of imminent higher long term yields is almost universally held and the institutions are holding their funds in the money market until these higher yields materialize.

The expectation of higher long term yields is due to three factors:

1. *Anticipated demand for funds.* Although the federal government will probably not have to come to market for funds in 1973 and housebuilding activity has stabilized, the demand for funds is expected to increase substantially. Provincial borrowing and consumer credit are forecast to remain at high levels, while an additional impetus will be provided by corporate borrowing to finance an anticipated high level of investment in the latter part of the year.

2. *Inflation.* Inflation has increased rapidly in the past year and the current rate, of about 5%, is not yet fully reflected in long term rates.

3. *U.S. interest rates.* U.S. interest rates have been rising measurably recently and thus a pressure has been created for Canadian long term yields to adjust upward to restore the traditional Canada—U.S. positive yield differential.

Although no clear trend has emerged, there are indications that the expected upward movement of long term rates may have begun. Since the end of January, the long term Canada bond yield has drifted upward and the large spring new issue calendar suggests that corporations may finally be re-entering the market. On the other hand, almost one-half of the spring calendar has found financing without a major depletion of institutional cash; this lingering liquidity may continue to delay the upward adjustment of long term rates.

## Investment

In 1972, the main stimulus to growth within the investment sector came from residential construction, which grew by more than 24 per cent over 1971. The effects of budgetary changes introduced in the May 8, 1972 Federal Budget relating to fast write-off of equipment, and tax cuts in the processing and manufacturing industries, if enacted into law this year, will begin to take hold some time in 1973. Therefore, it is expected that new investment in machinery and equipment will provide the largest stimulus to growth within the investment sector this year. Total private and public investment in Ontario in 1973 should reach about \$9.1 billion, an increase of 10.9 per cent over 1972.



The DISC plan which was established to encourage U.S. firms to locate in the U.S., was originally expected to have a negative effect on new investment in Canada. Now, the widely held view by many Canadian economists is that if recent tax proposals are passed, the possible adverse effects of the DISC plan will effectively be neutralized. There may be special cases where introduction of a DISC plan may prompt a U.S. subsidiary to consolidate its operations in the U.S., but these cases are not expected to be numerous.

Non-residential construction, a weak sector in 1972, is expected to be stronger in 1973, but the increases will not match those in residential construction and machinery and equipment. Many industries, especially transportation, electrical and chemical goods industries are near full capacity now, and they will require additional plant and office space to accommodate their 1973 requirements. In total, it is expected that investment in non-residential construction in 1973 will be 7.1 per cent higher than in 1972.

A brisk year is expected again for the housing industry in the Province but the growth exhibited in 1972 will probably not be matched in 1973. It is anticipated that some of the demand for housing which began to taper off in the last few months of 1972 will continue to decline for most of 1973. As a result, investment growth in this sector in 1973 is expected to decrease to 10 per cent as compared to 1972, when residential construction grew by nearly 20 per cent over 1971. In total, about 110,000 housing starts (about 100,000 urban starts) are likely for 1973.

### **Outlook for Canadian Merchandise Trade**

The overall outlook for trade in 1973 is uncertain, despite a strong U.S. economy. President Nixon has recently stated that he will ask Congress for authority to raise or lower tariffs for specific products or countries in an effort to obtain in the words of President Nixon, "a fair deal and a fair shake for American products abroad". Efforts by the U.S. to bring their merchandise trade account into balance will undoubtedly affect Canada, but at this point it appears the President is more concerned with the imbalance of trade with Japan and the EEC, than with Canada. Nevertheless, the threat of measures similar to those taken in August 1971 continues to have an unsettling effect on Canada.

The U.S. devalued its dollar by 10 per cent on February 12, 1973. Since 70 per cent of Canada's exports are to the U.S., it is expected that the Canadian dollar will follow the U.S. dollar and thus be devalued vis-a-vis the currencies of Canada's major off-shore trading partners. As a result, Canada's products will become more competitive in off-shore markets and imports will lose much of their competitive edge. Even if the Canadian dollar settles at a slight premium vis-a-vis the U.S. dollar, any adverse effect on Canada's trade with the U.S. will be counterbalanced by the improved competitiveness of Canadian products in countries other than the U.S.



Barring drastic action by the U.S., it is expected that Canadian exports of goods and services will grow by about 10.0 per cent and imports by about 12.0 per cent, bringing a further deterioration in Canada's trade position.

### **Price Outlook**

As the Canadian economy expands in 1973, there will be a continuing upward pressure on prices. The U.S. price controls had some braking effect on Canadian prices, especially on manufactured goods exported to the U.S. Since Phase II controls have been lifted and supplemented by voluntary guidelines under Phase III, a very rapid rise in prices is expected for the first half of the year in the U.S. Consequently, Canadian exporters may take this opportunity to raise prices which have perhaps been artificially low for the past two years. This too, will result in an additional upward push on prices in Canada.

Cost pressures throughout the whole food distribution system will continue for at least the first half of the year. Some easing of the upward pressures may occur if the crop harvests improve this summer. For the year as a whole, it is expected that food prices will not rise as much as in 1972, despite their rapid rise during the first quarter of 1973.

Overall, it is expected that the average price increase of all items will be around 4.8 per cent in 1973.

### **Corporate Profits and Labour Income**

The high growth rates of corporate profits in Canada for the past two years are expected to decline modestly in 1973. Much of the slack that previously existed in a number of industries will be taken up and cost increases are expected to be higher than productivity gains as capacity levels of output are approached. Business income is expected to be augmented once more by sharp gains in inventory valuation which are due to rising prices. For Canada as a whole, the expected growth rate in pre-tax profits is in the 13 to 14 per cent range. The growth in profits of Ontario corporations is predicted to be about 12 per cent.

Assuming that the Federal government does not institute a prices and incomes policy, and that labour responds to the high rate of inflation in 1972, the gains in labour income should again be larger than average. For Canada as a whole, labour income could top last year's 10.9 percent growth and approach the 12 percent mark.

In Ontario, inflationary expectations are high, and a substantial proportion of all collective agreements coming up in Canada for bargaining appear in the Ontario scenario. It is expected that total salaries and wages in Ontario will be 14 per cent higher this year than in 1972.





## The U.S. Economy in 1973

The U.S. economy is expected to continue its economic expansion which began in mid-1971, but it is likely that some slowing down will occur in the second half of this year. The current consensus of economic forecasts in 1973 calls for real growth in the order of 5.5-6.0 per cent. This would be slightly lower than the excellent advance by the U.S. economy in 1972 when real GNP growth reached 6.4 per cent. The general feeling is that economic growth peaked in the last quarter of 1972 and the first quarter of 1973. Thereafter, a somewhat slower pace of activity is forecast. Some economists are predicting increases in output of as low as 4.0 per cent by the last quarter of 1973.

Under Phase III of the Price Controls, which include only voluntary guidelines, no fiscal or monetary restraint will avert a bulge in prices in the first half of the year—a bulge which may subside later in the year. As a result, the annual rate of inflation may go up to around 4.5 per cent in the first 6 months. It is expected that for the year as a whole, prices will increase at least 3.7 per cent, so that GNP in current dollars should rise by about 9.6 per cent to \$1,262 billion in 1973.

Much of the stimulus to growth will come from a rapid increase in business investment—projected by the Bureau of Economic Analysis to grow by 13.8 per cent in 1973. The increase this year reflects relatively greater strength in manufacturing than in the non-manufacturing sector. If the anticipated rise is realized it will be the largest gain in a single year since 1966 when business capital expenditures grew 16.7 per cent. In the durable goods sector, the largest gains are expected in precious metals and transportation equipment industries. Within the non-manufacturing group, the largest advances are forecast for mining companies and electric utilities.

The housing boom which resulted in a record 2.4 million new starts in 1972 is expected to taper off in 1973.

One of the uncertainties that looms in 1973 is the U.S. Federal Budget. It appears that unless federal spending trends are moderated, or taxes increased, the deficits will be very large and increasingly inflationary as the economy reaches higher levels of employment. The Nixon administration, however, has made budgetary control a major objective of domestic policy. Also, the over-optimism of the private sector which prevailed throughout the mid-1960's and led to wide-spread inflationary pressures, is not present this year. If a prudent path of action is followed by both the federal government and the private sector, inflationary pressures, except for a bulge at the beginning of the year, should not be of great concern.



Unemployment which has been as great a problem in the U.S. as in Canada has been decreasing continually despite an unusually large increase in the civilian labour force brought about by the increased participation rate of women, and by servicemen returning from Viet Nam. It is expected that the unemployment rate which averaged 5.6 per cent last year will decrease to around 5.0 per cent this year.

The recent devaluation of the U.S. dollar will undoubtedly help to correct the U.S. imbalance of merchandise trade which has become so acute in the past 10 years. According to many prominent U.S. economists the merchandise trade account which showed a deficit of about \$168 billion in 1971 and \$537 billion in 1972 will be brought into balance by the end of 1973 or early 1974.

#### UNITED STATES GROSS NATIONAL PRODUCT

(\$ Billions)

	<u>1971</u>	<u>1972<sup>1</sup></u>	<u>1973<sup>2</sup></u>	<u>Per Cent Change</u>	
				<u>1972/71</u>	<u>1973/72</u>
GNP					
Current \$	1050.4	1151.8	1262.4	9.7	9.6
GNP					
Constant 1958 \$	741.7	789.5	833.7	6.4	5.6
Implicit Price					
Deflator 1958=100	141.6	145.9	151.3	3.0	3.7

<sup>1</sup>Source: U.S. Economic Indicators, February, 1973.

<sup>2</sup>Forecast, Economic Analysis Branch,  
Ministry of Treasury, Economics and Intergovernmental Affairs.

#### EXPENDITURES FOR NEW PLANT AND EQUIPMENT BY U.S. BUSINESS

1971 — 1973

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1972/71</u>	<u>1973/72</u>
	<u>(\$ Billion)</u>			<u>Per Cent Change</u>	
All Industries	81.2	88.4	100.6	8.9	13.8
Manufacturing	30.0	31.4	37.0	4.7	17.8
Durable goods	14.2	15.6	18.7	9.9	19.9
Non-durable goods	15.8	15.7	18.3	-0.6	16.6
Non-Manufacturing	51.2	57.1	63.6	11.5	11.4

Source: Survey of Current Business, U.S. Department of Commerce  
February 1973.



## 1972 IN PERSPECTIVE

### The Economic Environment in 1972

The upturn in economic activity in Ontario and Canada, underway in 1971, continued throughout 1972. The total value of goods and services produced in Ontario rose by 10.8 per cent over 1971 to reach a level of \$42.1 billion. The growth of GNP was slightly lower in 1972, advancing by 10.6 per cent to \$102.9 billion. After discounting price increases of 4.9 per cent, real growth in 1972 in Ontario and Canada amounted to 5.7 and 5.5 per cent respectively.

Despite strong GNP growth in 1972, advances throughout the year were uneven. GNP gains were slow in the first quarter, followed by a rapid rise in the second, a pause in the third, and a rapid surge in the fourth quarter. The unevenness in activity was due primarily to erratic merchandise exports which were hampered by strikes, unexpected declines in agricultural production and by uneven purchases of consumer durables.

The implicit price index rose 4.9 per cent for Canada as a whole, compared to 3.3 per cent in 1971 and 4.5 per cent in 1970. As in the rest of the world, price pressures were the greatest for food, but construction costs and export commodities also contributed substantially to widespread price gains.

While overall growth of the Ontario economy was similar to that of Canada as a whole, there were notable differences in the performance of certain sectors. For example, consumer expenditures in Ontario rose more than in Canada as a whole, while exports, stimulated by large increases in natural gas, crude oil, lumber and wheat sales, grew considerably more outside Ontario. Within the investment sector, residential construction activity was approximately the same throughout Canada, but in both machinery and equipment and non-residential construction, growth in Ontario was slower than in the rest of Canada. Government spending in Ontario and the rest of Canada increased at about the same pace. As a result of all these activities, the Ontario economy grew at a marginally faster rate than the Canadian economy in 1972.

In the important manufacturing sector, the long-awaited recovery finally arrived. The index of industrial production and the index of manufacturing advanced by 6.5 per cent and 6.1 per cent respectively. Since over 50 per cent of Canadian manufacturing output originates in Ontario, the positive effect of this growth was stronger in Ontario than in any other part of Canada.

Capital spending in Ontario, except for residential construction, was not a particular source of strength. In real terms there was actually a slight decline in non-residential construction as businesses held off investing in new plant and office space pending enactment of tax laws proposed in the Federal Budget of May 8, 1972.



The foreign trade sector for Canada was somewhat disappointing despite a 9.5 per cent gain in exports of goods and services. A faster rate of increase in imports resulted in a sharp deterioration in the balance on current account from a \$66 million surplus in 1971 to a deficit of \$776 million in 1972.

Although merchandise exports grew 12.3 per cent, almost twice the rate of the previous year, merchandise imports, stimulated by purchases from the U.S. and Japan, rose 20.0 per cent over 1971.

The continuing economic expansion led to the creation of 250,000 new jobs in Canada and 140,000 in Ontario. For Ontario this represented a 4.5 per cent increase in employment, the highest in any single year since World War II. Despite this rapid rise in employment, unemployment decreased only to an average 4.8 per cent in Ontario compared to 5.2 per cent the previous year. The reason for this relatively small improvement was an extra-ordinary large influx of new entrants especially women, into the work force. As in the past two years, most new jobs (in percentage terms and in numbers) were created in the service sector, but there was also a healthy upsurge in employment in Ontario manufacturing industries where 50,000 more people were employed than in 1971.

Corporation profits continued their rebound on a wide front. Preliminary estimates for corporation profits in Canada indicate a gain of nearly 20 per cent, following a healthy advance of 15.9 per cent in 1971. Labour income, which accounts for over one half of GNP, rose by 10.9 per cent. The sharp rise in wages and salaries in manufacturing cannot be overlooked, as total wages in this sector grew 9.8 percent—a considerable improvement over 1970 and 1971 when manufacturing industries were under a severe profit squeeze.

#### GROSS NATIONAL PRODUCT — CANADA

	<u>Current Dollars<sup>(1)</sup></u>		<u>Constant 1961 Dollars<sup>(1)</sup></u>	
	(millions)	(Per Cent change)	(millions)	(Per Cent change)
1968	72,586	9.9	59,292	5.2
1969	79,749	7.1	62,363	2.5
1970	85,449	8.9	63,941	5.5
1971	93,094	10.6	67,449	5.5
1972	102,935		71,157	
1972 I	98,992		69,532	
II	101,964	3.0	70,968	2.1
III	103,728	1.7	71,152	0.3
IV	107,056	3.2	72,976	2.6

**Source:** Statistics Canada, National Income and Expenditure Accounts, Fourth Quarter 1972.

(1) Unless otherwise stated, all figures are seasonally adjusted at annual rates.





## Consumer Expenditures

Personal expenditures on goods and services provided a major stimulus to both the Canadian and Ontario economies in 1972. For Canada as a whole, the largest gain was recorded in the second quarter when total consumption grew 3.4 per cent over the first quarter. This rapid growth slowed somewhat in the third quarter, but renewed brisk spending at year-end resulted in a 3.2 per cent gain over the third quarter.

Within the consumer goods component of GNP, spending on durables paced the advance with a 15.6 per cent gain over the previous year. Spending on services also grew at above average rates in the latter part of the year, with the result that outlays on services advanced by 9.6 per cent over 1971. Many of these rapid gains resulted from a need to furnish the record number of housing completions during the year.

1971 was a good year for retailers in Ontario, but 1972 was even better. Growth throughout the year was well balanced and the greatest gains were shown by sales of department stores and furniture dealers, up to 14.8 and 12.9 per cent respectively. The only weak spot was shoe store sales which rose less than 5 per cent over 1971. Food store sales, which were relatively depressed in 1971 under the influence of prolonged price wars, more than recovered from their low levels in 1971, and rose by nearly 9 per cent over 1971.

Overall, retail sales in the Province, which account for about 25 per cent of Gross Provincial Product, grew by 9.5 per cent, somewhat less than the economy as a whole.

Total volume of sales, after discounting price increase, was up about 4.5 per cent. Consumers were encouraged by growing disposable incomes which were over 12 per cent higher than in 1971. This was due in large part to the removal of the 3 per cent surtax, and a further 3 per cent tax cut instituted in late 1971. Also, larger transfer payments, resulting from increased old-age pensions and higher unemployment benefits, and an increase in the number of employed by 4.5 per cent further contributed to the large rise in the total disposable income of Ontario residents.



### ONTARIO RETAIL SALES

<u>Selected Sectors</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1970/69</u>	<u>1971/70</u>	<u>1972/71</u>
	\$ Billions			Per Cent Change		
Grocery and Combination Stores	2.7	2.8	3.0	7.1	6.1	8.9
Department Stores	1.1	1.3	1.4	4.9	11.8	14.8
Motor Vehicle Dealers	1.6	1.8	2.0	-12.9	16.9	10.1
Women's Clothing Stores	.2	.3	.3	3.4	13.3	8.5
Furniture, T.V., Radio, Appliance Stores	.4	.4	.4	-2.7	10.0	12.9
Total All Trades	10.9	11.9	13.0	1.4	8.6	9.5

**Source:** Statistics Canada, Retail Trade

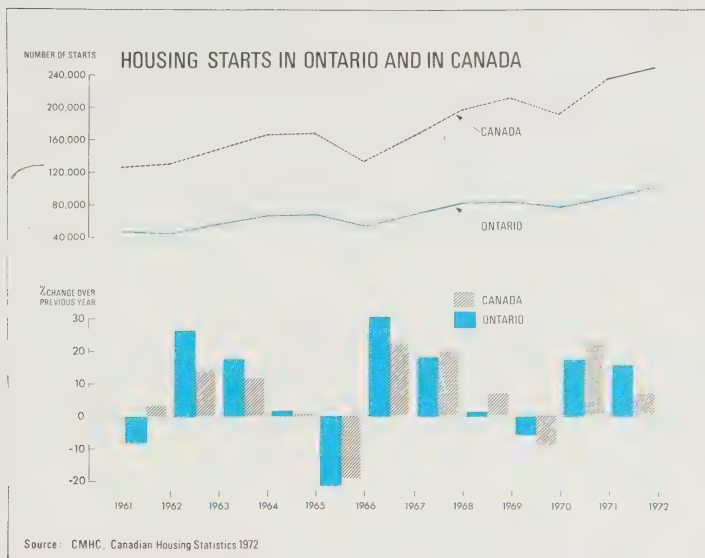
### **Investment**

In the past, there has been a clearly discernible relationship between mid-year plans and expenditures; when the pace of business activity has accelerated and business confidence has been on an upswing, expenditures have usually exceeded the amount planned, while the reverse has been true during times of slowdown and uncertain economic conditions.

1972 was no exception to this rule. Estimates of the mid-year federal government survey which predicted a 4.5 per cent increase in private and public investment were substantially exceeded. Preliminary figures show that total private and public investment in Ontario reached \$8.2 billion, an increase of 10.5 per cent over 1971. Within the investment component, business investment rose faster than capital outlays by governments.

Despite rapid increases in the price of land around large urban centres, the largest proportion of the increase in total business investment in Ontario occurred in residential construction. Housing starts, which have been rapidly increasing since 1970, totalled 102, 933 units, an increase of 14.4 per cent over 1971. Most of the rise was attributable to a surprisingly large increase in single family housing construction which was up nearly 31 per cent over 1971.





The large increases occurred despite a slowdown in public housing construction by the Ontario Housing Corporation. Demand for public housing was very large in 1970 and 1971, as public housing starts (senior citizen and family housing) represented over 10 per cent of total starts in Ontario in both years. In 1972, however, while private sector starts continued their relentless rise, only 6,402 public housing units were started, a figure which represents only 6.4 per cent of total new units in Ontario.

Generally stable long-term mortgage rates and an increase in the availability of credit encouraged purchases by those who had postponed investments in housing in 1971.

Recent statistics indicate that investment in machinery and equipment in Ontario by private firms advanced over 7 per cent, a considerable improvement over 1971. Much of this use was attributable to an improved business climate, a renewal of business confidence, and an increase in consumer demand which pushed firms close to full capacity.

Non-residential construction in Ontario lagged throughout 1972. Except for large scale office building construction in and around Metropolitan Toronto and an 20 per cent increase in non-residential construction by utilities, building activity in the Province was sluggish. The value of construction was only slightly above levels of 1971, and the volume actually declined.

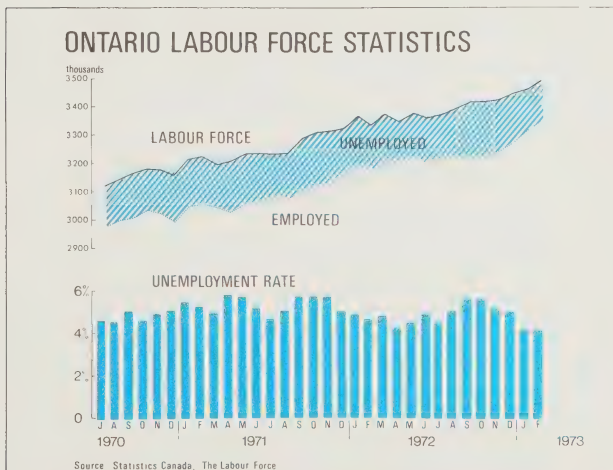




The rate of investment in non-farm business inventories for Canada rose from \$87 million to \$444 million, the largest such increase since 1969. Most of this inventory was concentrated at the retail level, with the result that manufacturing inventories were reduced to below 1971 levels. Farm inventories on the other hand, declined considerably, especially in the third and fourth quarters. Large export demand for western grains combined with relatively poor harvests throughout most of Canada, resulted in a complete drawdown of farm inventories. The result of the increase in non-farm inventories and the sharp decline in farm inventories led to a net gain of about \$111 million in total inventories for the year as a whole. Contrary to expectations, therefore, inventories did not provide a significant source of growth in 1972.

## Employment

Employment in the Province in 1972 grew by 140,000 or 4.5 per cent over 1971. Despite this rapid growth in employment the labour force grew by 132,000, leaving an average unemployment rate of 4.8 per cent for the year as a whole. This rate compares favourably with unemployment during 1971, but most unfavourably with the 4.3 per cent unemployment in 1970, and the 1960-70 average of 3.6 per cent.





Increased participation by women, and a large influx of workers in the 14-24 year range led to the unusually rapid labour force growth. In fact, many of the employment problems in Canada and Ontario have been the result of rapid labour force growth, and not the lack of job opportunities as has often been suggested. The increased participation by women is reflected in the growth of women in the labour force in 1972 as compared to growth of the male labour force. The number of women participants grew by 5.3 per cent while the number of male workers rose only 3.4 per cent. This trend was merely a continuation of the changing structure of the Ontario work force in the past ten years, when the number of females in the labour force grew by 5.0 per cent annually, compared to an average annual increase of 3.0 per cent for males.

Of the 140,000 new jobs in 1972, 43,000 were in manufacturing, an increase of 5.1 per cent over the number of people employed in this all-important sector in 1971. This was a welcome occurrence as it was the first substantial increase in manufacturing employment since 1969. Despite this, jobs in the goods producing industries grew very little as the number of jobs in agriculture and construction declined.

The largest increase, as in the previous two years, both in numbers and in percentage terms, took place in the service sector which now employs about 61 per cent of the work force as compared to 52 per cent in 1961. About 116,000 new jobs were created in the service sector, a gain of 6.3 per cent over 1971. Of all categories of services the number employed in trades and personal services grew most rapidly.

In comparison with other industrialized countries, Canada's labour force has grown faster than any other. In the past decade, Canada's work force grew by an average of 2.8 per cent annually, compared with 1.7 per cent in the U.S. and less than 1.0 per cent in West Germany, Sweden and the United Kingdom.

#### EMPLOYMENT BY INDUSTRY, ONTARIO

	<u>1971</u>	<u>1972</u>	<u>% Change</u> <u>72/71</u>
	(thousands)		
Goods-producing	1,233	1,246	+ 1.9
Agriculture	134	117	-13.7
Other Primary	58	58	.0
Manufacturing	840	883	+ 5.1
Construction	191	188	- 6.3
Service-producing	1,856	1,972	+ 6.3
Transportation,			
Communication, Utilities	231	243	+ 5.2
Trade	484	527	+ 8.9
Finance, Insurance and Real Estate	163	164	+ .6
Community, Business and Personal			
Services	775	820	+ 5.8
Public Administration	203	218	+ 7.4
All Industries	3,079	3,219	+ 4.5

**Source:** Statistics Canada, Labour Force Survey



## International Trade in 1972

A strong surge at the end of 1972 helped Canada's merchandise exports grow 12.2 per cent last year. Coincident with the strong expansion of exports, imports rose even more, so that the merchandise surplus of \$2.2 billion in 1971 declined by \$9 billion to \$1.3 billion in 1972.

Widespread economic expansion in the U.S. in 1972, after two sluggish years, created increased demands for Canadian products. The largest single item contributing to Canada's buoyant exports was a gain of \$500 million in automotive exports to the U.S. Also, in line with increased prosperity in the U.S., shipments of lumber, petroleum and natural gas grew by a total of \$630 million, so that overall, exports to the U.S. rose 16 per cent over 1971.

There was an equally large gain in exports to Japan, but it was due primarily to raw materials such as coal, rapeseed, metal ores, meat and lumber. While increased raw material exports helped keep Canada's merchandise trade in surplus, they did not significantly expand job opportunities for the rapidly growing labour force.

A resurgence of most West European economies and very rapid rates of inflation in member countries brought about some improvement in exports to the EEC. While the improvement was only marginal, it was significant compared to 1971 when sales declined substantially from the previous year. The only weak point was in exports to the U.K., which declined 3.9 per cent as compared with 1971.

The outlook for trade with the U.S. remains healthy. It is expected that expansion of the U.S. economy will continue at about 5.6 per cent, and inflation under Phase III will rise to 3.7 per cent in 1973. (See U.S. economic outlook p. 8) so that Canada's exports to that country will probably grow 12-15 per cent this year.

The stimulative effect of foreign demand was offset to a large extent by a totally unexpected rise of 20 per cent in imports last year. The large gains were attributable primarily to the significant expansion of the Canadian economy and the relatively high value of the Canadian dollar. This increase was distributed over a broad range of commodities, but \$860 million, or 28 per cent of the total rise, resulted from automotive products. Concomitant with the increase in business investment, imports of industrial machinery rose \$265 million. Purchases from Japan continued their rapid growth rate, as Canadians paid 37 per cent more than in 1971 for items such as communications equipment, automotive products and other manufactured equipment. The EEC countries who have been most successful in penetrating the Canadian market, increased their sales by \$210 million or 23 per cent last year. The expansion occurred primarily in machinery, fabricated materials and manufactured goods.

While Canada was fortunate in maintaining a surplus on the merchandise account, the performance on the current account which includes services, tourist spending, interest, dividends and royalties was not good. When these factors are included in the trade equation, Canada had a deficit of \$776 million last year, compared to a surplus of \$66 million in 1971. The current account position with the United States showed some deterioration in 1972; Canada's deficit on current account in 1972 increased to \$310 million from \$161 million in 1971.



The surplus on the automotive account which Canada has been enjoying appears to be dwindling. In 1972, Canada's surplus with the U.S. on automotive products was only \$5.8 million, compared to \$193.5 million in 1971, and \$196 million in 1970. If snowmobiles and trailers are excluded from the trade figures, Canada showed a deficit of \$11.1 million on automotive trade with the U.S. in 1972. Therefore, the Auto Pact, which in recent months has often been referred to as an "irritant" by the U.S., may not assume the same importance in forthcoming trade negotiations with the U.S. as in the past two years.

**CANADA'S MERCHANDISE TRADE**  
(Million Dollars)

	Exports			Imports			Trade Balance	
	1971	1972	Per Cent Change	1971	1972	Per Cent Change	1971	1972
United Kingdom	1,382	1,328	- 3.9	837	949	+13.4	544	379
United States	12,023	13,922	+ 15.8	10,945	12,871	+17.6	1,078	1,051
Japan	831	962	+ 15.8	802	1,071	33.5	29	-109
European Economic Community	1,109	1,125	+ 1.4	935	1,147	+22.7	174	-22
Latin America	566	613	+ 8.3	607	660	+ 8.7	-41	-47
Other Countries	1,892	2,027	+ 7.1	1,485	1,957	+38.1	407	70
Grand Total	17,804	19,977	+12.2	15,611	18,655	+ 19.5	2,192	1,322

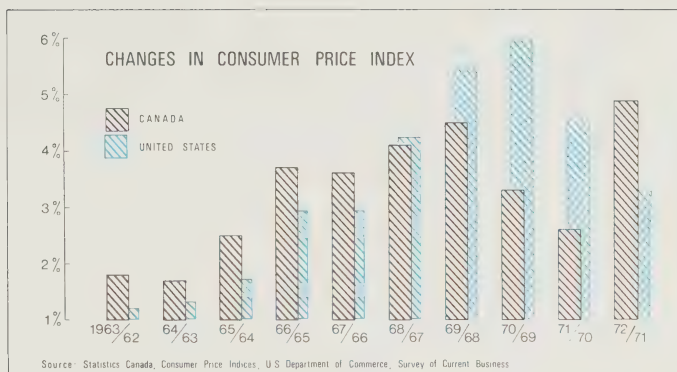
**Source:** Statistics Canada, Weekly, March 9, 1973

### Price Movements in 1972

There was a considerable acceleration in the rate of increase in the consumer price index. Based on a 12 month average, it rose 4.9 per cent. After a number of years of relatively stable food prices, 1972 saw an extraordinarily large increase in the price of food. Very strong demand, both domestic and foreign, poor crops in some commodities, and generally increased costs throughout the whole food distribution system, were the principal reasons for the substantial increase of 7.6 per cent in food prices. Housing and shelter costs continued their relentless climb, rising 4.7 per cent, and health costs, after a relatively small rise in 1971, grew 4.8 per cent in 1972. These increases were offset to a considerable degree by a lower than usual increase in the cost of clothing, recreation and reading.







#### CONSUMER PRICE TRENDS IN VARIOUS COUNTRIES

	69/68	70/69	71/70	72/71 (nine months) change	71/63 Compound Growth Rate	71/68 Compound Growth Rate
	Per Cent Change			Per Cent Change		
Canada	4.6	3.3	2.9	4.7	3.3	3.6
United States	5.5	5.8	4.3	3.3	3.6	5.2
Japan	5.2	7.8	6.1	4.5	5.5	6.3
France	6.4	5.5	5.6	5.8	4.2	5.8
Germany	2.5	4.5	5.8	5.6	3.5	4.3
Italy	2.6	4.9	4.9	5.3	3.7	4.2
Netherlands	7.5	4.4	7.6	7.8	5.4	6.5
Sweden	2.7	7.1	7.3	6.1	4.7	5.7
Switzerland	2.6	3.5	6.6	6.6	3.8	4.2
United Kingdom	5.5	6.4	9.4	6.8	5.0	7.1

**Source:** Main Economic Indicators (O.E.C.D. December, 1972)



To most of the Canadian public, recent price advances, especially food prices, appear excessive. In comparison to Canada's major trading partners, however, with the exception of the United States, where Phase II of price controls was in effect, inflation in Canada was considerably lower. Price gains in most European countries in the first three quarters of 1972 were nearly all in excess of 6.0 per cent, notably in Great Britain, Switzerland and Spain, where consumer prices rose by 6.8 per cent, 6.6 per cent and 8.4 per cent respectively. The best price performance was shown by the United States where the consumer price index rose only 3.3 per cent.

### **Labour Income**

The gains registered by labour income in 1972 in Canada accelerated beyond those of the previous two years to a level of 10.9 per cent for the year. These gains were distributed over the year, the first and fourth quarters being the strongest, with increases of 3.2 and 3.7 per cent respectively. The second and third quarters were weaker, showing gains of 2.1 and 2.4 per cent respectively. These two quarters were affected by industrial disputes, with the second quarter bearing the greatest impact.

This overall acceleration was spearheaded by the 14.6 per cent gain in public administration salaries, followed by an increase of 13.0 per cent in the service producing industries, notably trade. The 8.4 per cent growth in income derived from the goods-producing industries was slowed by strikes in construction and mining. The manufacturing sector showed a significant acceleration over 1970 and 1971, with wages and salaries rising by 9.8 per cent.

In Ontario, wages and salaries increased by an estimated 13 per cent, outpacing the estimated 9 per cent increase in wages and salaries in the rest of Canada. This consisted of a 4.5 per cent increase in employment combined with an increase of 8.3 per cent in the level of the average annual wage per employed person.



## **Corporate Profits**

The volatile manner in which corporate profits respond to cyclical swings in economic activity is evident in the preliminary estimates of pretax corporate profits for 1972. The overall performance of the whole economy for the year was fairly brisk; however, the quarterly distribution was somewhat uneven, with corporate profits reflecting these swings. The first two quarters showed gains of 3.5 and 4.3 per cent respectively. The apparent slackening of the pace of economic activity in the third quarter generated a relatively small 0.9 per cent advance in profits. Increased strength in the fourth quarter produced the largest rise, amounting to 6.4 per cent. For the year as a whole, corporate profits grew 19.7 per cent—the largest single yearly gain since 1955. This gain, coupled with the 15.9 per cent increase of 1971, enabled corporations to increase their share of GNP to 10.5 per cent, just under the 10.7 per cent recorded in 1968. Rising prices contributed somewhat to these increases in 1971 and 1972, entering through sharply increased inventory valuations. The after-tax profits of Canadian corporations rose by more than 24 per cent during 1972. These advances were widespread, with the paper and forest sector showing the best profit improvement among the groups surveyed.

Ontario corporations shared in this improvement, showing an overall growth of nearly 15 per cent in pre-tax profits. Although no regional breakdown of after-tax profits by corporate activity is available, the above-average performance of the manufacturing, real estate, gold, merchandising and other sectors, where Ontario has strength, seems to indicate that the Province shared in the buoyant levels of after-tax profits and resultant higher levels of cash flow.

## **Personal Income**

Personal income in Canada rose as predicted earlier in 1972. The second quarter, with a 3.6 per cent gain, was the strongest part of a year that saw an 11.6 per cent increase in personal income. The advances in the first, third and fourth quarters were fairly even with increases of 2.7, 2.2 and 2.5 per cent respectively.

Personal disposable income also showed a healthy increase of 11.9 per cent over 1971, slightly more than the rise in personal income. Both of these income measures were boosted by record increases in transfer payments in 1972, as unemployment insurance benefits payments more than doubled.

In Ontario, personal income gains topped the national average, with an unusually strong growth rate of slightly over 12 per cent. The increase in personal disposable income in the Province did not differ significantly from advances in personal income.



## The U.S. Economy in 1972

The economic expansion in the United States exceeded all expectations. Output increased substantially with GNP in real terms advancing 6.4 per cent and industrial production rising 7 per cent over 1971. The implicit price deflator for total GNP rose 3 per cent, the smallest full year advance since 1966. It is virtually impossible to identify the direct effect Phase II controls had on prices and wages, but it should be noted that the average wage increases were appreciably lower than the average in any of the preceding years. In manufacturing, a key sector, average wage increases were 5.5 per cent compared to 7.5 per cent in 1971.

Employment in 1972 was up 3.3 per cent, one of the largest gains since World War II. As a result, unemployment declined during the year to 4.8 million so that the average unemployment rate in the country was reduced from 5.9 per cent in 1971 to 5.6 per cent in 1972 and to about 5.3 per cent in the fourth quarter of the year.

The improvement in employment was derived in large part from resurgence of durable goods and manufacturing industries which suffered a considerable profit squeeze in 1970 and 1971. But, as in Canada, most of the increase in jobs occurred in the service sector.

Foreign demand for U.S. goods and services increased markedly in 1972, but this was offset by an even larger demand for foreign products; exports of goods and services rose 11.5 per cent, while imports of goods and services grew by 19 per cent, resulting in a deterioration of the balance on goods and services from a small surplus in 1971 to a \$4 billion deficit in 1972.

The initial devaluation of the U.S. dollar in December 1971 was expected to bring about an improvement in the balance of trade in the long run. In early 1972, however, devaluation had the opposite effect. Since the U.S. is a very heavy importer of raw materials which are relatively price inelastic, they were paying higher prices with no change in volume. Thus devaluation initially caused a further deterioration in the balance of trade in early 1972. In late 1972, however, some of the long range anticipated effects of the devaluation began to take hold, and a slight improvement was noted.

Consumer spending rose 8.4 per cent from 1971 to 1972, compared with a 7.8 per cent growth in 1971. The improvement in 1972 reflected, as in Canada, increased optimism by the consumer and was associated with record expansion of consumer credit. In 1972, the bulk of spending gains was on furniture and household equipment associated with the continuing housing boom. As a result of hefty increases in the price of food, retail sales increased much more in 1972 than in 1971. Automobile sales which totalled a record 11 million units, would have been higher were it not for inventory shortages.

The residential construction boom, sustained by high underlying demand and easy mortgage credit, continued for the rest of 1972. Investment in this important sector grew by over 25 per cent for the second year in succession. 2.4 million units were started, up from 2.1 million in 1971, and mobile homes continued their popularity as 510,000 units were shipped, compared to 480,000 in 1972.





# CANADA AND ONTARIO ECONOMIC FORECAST FALL 1972

		<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1971/70</u>	<u>1972/71</u>	<u>1973/72</u>
				Forecast		Per Cent Change (1)	
<b><u>ONTARIO</u></b>							
Gross Provincial Product	(\$billion)	38.0	42.1	46.7	8.9	10.8	11.1
GPP (constant 1961 \$billion)		27.6	29.1	30.8	5.3	5.7	6.0
Labour Force	(000's)	3,249	3,381	3,510	3.8	4.1	3.8
Employment	(000's)	3,079	3,219	3,356	2.8	4.5	4.3
Unemployment	(% of labour force)	5.2	4.8	4.4	—	—	—
Private and Public Investment	(\$billion)	7.5	8.2	9.1	7.7	10.5	10.9
Residential Construction	(\$billion)	1.6	2.0	2.3	27.6	24.2	10.3
Machinery and Equipment	(\$billion)	2.8	3.0	3.5	-0.1	7.2	15.4
Non-residential Construction	(\$billion)	3.1	3.2	3.4	9.3	3.7	7.1
Retail Sales	(\$billion)	11.9	13.0	14.4	8.6	9.5	10.5
<b><u>CANADA</u></b>							
Gross National Product (\$billion)		93.1	102.9	114.3	9.0	10.6	11.1
GNP (constant 1961 \$billion)		67.4	71.2	75.4	5.5	5.5	6.0
Prices (1961=100)		138.0	144.7	151.6	3.3	4.9	4.8
Private and Public Investment	(\$billion)	20.2	21.9	24.0	13.4	8.4	9.6
Residential Construction	(\$billion)	4.0	4.7	5.0	28.3	17.7	5.0
Machinery and Equipment	(\$billion)	6.9	7.6	8.7	6.7	9.7	14.3
Non-residential Construction	(\$billion)	9.2	9.6	10.4	13.1	3.4	8.3
Index of Industrial Production (1961=000)		183	195	206.8	4.3	6.5	6.0
Retail Sales (\$billion)		38.7	33.9	37.5	9.2	10.9	10.5
Total Exports Nat. Accts. Basis (\$billion)		22.2	24.3	26.8	5.3	9.5	10.0
Unemployment	(% of labour force)	6.4	6.2	5.9	—	—	—

(1) Calculations based on unrounded figures

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